

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

12 SECURITIES AND EXCHANGE) Case No. 5:12-CV-03237 EJD
13 COMMISSION,)
14 Plaintiffs,) **ORDER PARTIALLY GRANTING**
15 v.) **FOURTH INTERIM FEE**
16) **APPLICATIONS**
17)
18) [Docket Item Nos. 646, 647]
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This lawsuit involves allegations made by the Securities and Exchange Commission (“SEC”) that the Defendants violated antifraud and other provisions of the federal securities laws. See Compl. 1, Docket Item No. 1. Receiver Thomas Seaman (“Receiver”) and the law firm of Allen Matkins, Leck, Gamble, Mallory & Natsis, LLP (“Allen Matkins”) seek interim payment of fees and expenses for services performed during the period from August 1, 2013 through October 31, 2013 (“fourth interim fee period”) in connection with the receivership of Defendant companies Small Business Capital Corporation, Investors Prime Fund, LLC, SBC Portfolio Fund, LLC, and related companies. The Receiver and Allen Matkins filed their fourth interim fee applications on

1 December 4, 2013. See Receiver's Fourth Interim Fee Appl., Docket Item No. 646; See Allen
2 Watkins' Fourth Interim Fee Appl., Docket Item No. 647.

3 **I. Fee Applications**

4 The Receiver and Allen Watkins request the following fees for services performed:

5 Applicant and Role	6 Fees Incurred	7 Interim Payment Requested	8 Costs	9 Total Payment Requested
10 Thomas A. Seaman, Receiver	11 \$167,264.50	12 \$150,538.05 (90% of fees incurred)	13 \$0.00	14 \$150,538.05
15 Allen Watkins Leck Gamble Mallory & Natsis LLP, General	16 \$99,292.05	17 \$89,981.00 (90.6% of fees incurred)	18 \$905.68	19 \$90,886.68

20 **A. The Receiver**

21 The Receiver requests approval of his fees in full and the authority to pay 90% of the
22 \$167,264.50 in fees incurred from August 1, 2013, through October 31, 2013. Dkt. No. 646 at 1.
23 The Receiver is requesting compensation for 861 hours of work during this period at a blended
24 hourly rate of \$194.00. Id. at 8. The Receiver is not requesting compensation for any expenses
25 incurred during this period.

26 **B. Allen Watkins**

27 Allen Watkins requests \$89,981.00 of the \$99,292.05 in incurred fees for 227.8 hours of
28 work, amounting to approximately 90.6% of the total fees incurred. Dkt. No. 647 at 1. This
requested amount reflects a blended hourly rate of \$395.00. Dkt. No. 647 at 1. Allen Watkins also
requests approval of 100% of its expenses totaling \$905.68. Id. at 6. The total payment requested
amounts to \$90,886.68.

29 **II. Discussion**

30 **A. Applicable Law**

31 The court appointing the Receiver is responsible for compensating the Receiver and his
32 attorneys. See In re Alpha Telcom, Inc. [Alpha Telcom II], No. 03:01-CV-1283-PA, 2013 WL
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1 840065, at *16 (D. Or. Mar. 6, 2013). The court may use its discretion to fashion a “fee award that
2 is appropriate under the circumstances.” Id. at *17. “The court appointing the receiver has full
3 power to fix the compensation of such receiver and the compensation of the receiver’s attorney or
4 attorneys.” Drilling & Exploration Corp. v. Webster, 69 F.2d 416, 418 (9th Cir. 1934). The
5 Receiver and the attorneys assisting the Receiver will be “reasonably, but not excessively”
6 compensated for their efforts to benefit the receivership estate. Alpha Telcom II, 2013 WL
7 840065, at *17. “[I]n receivership situations, lawyers should be awarded moderate fees and not
8 extravagant ones.” SEC v. Byers, 590 F. Supp. 2d 637, 648 (S.D.N.Y. 2008). The Receiver and
9 any professionals assisting the Receiver should charge a reduced rate to reflect the public interest
10 involved in preserving funds held in the receivership estate. See id. at 646-47. The Receiver and
11 his counsel should be moderately compensated for their services because investors who were
12 promised large returns on investments by the defendant may stand to recover “only a fraction of
13 their losses.” See id. at 645.

14 A court considering awarding interim fees should consider several factors. Alpha Telcom
15 II, 2013 WL 840065, at *16. An award of interim fees is appropriate “where both the magnitude
16 and the protracted nature of a case impose economic hardships on professionals rendering services
17 to the estate.” In re Alpha Telcom, Inc. [Alpha Telcom I], No. 01-CV-1283-PA, 2006 WL
18 3085616, at *3 (D. Or. Oct. 27, 2006). The court should also consider the “economy of
19 administration, the burden that the estate may be able to bear, the amount of time required,
20 although not necessarily expended, and the overall value of the services provided to the estate.” In
21 re Imperial “400” Nat., Inc., 432 F.2d 232, 238 (3rd Cir. 1970). Frequently courts will withhold a
22 portion of the requested interim fees because “until the case is concluded the court may not be able
23 to accurately determine the ‘reasonable’ value of the services for which the allowance of interim
24 compensation is sought.” Alpha Telcom I, 2006 WL 3085616, at *3. The factors listed above, and
25 others, may persuade the court to award the entirety of the requested interim fees or some amount
26 less than requested. See Byers, 590 F. Supp. 2d at 648. Lastly, “‘courts have recognized that it is
27 unrealistic to expect a trial judge to evaluate and rule on every entry in an application’” and courts
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1 “endorse percentage cuts as a practical means of trimming fat from a fee application.”” Id.
2 (quoting N.Y. State Ass’n for Retarded Children, Inc. v. Carey, 711 F.2d 1136, 1146 (2nd Cir.
3 1983)).

4 **B. Applications**

5 **1. The Receiver**

6 The receivership estate has continued to benefit from the Receiver’s progress and
7 completion of substantial receivership tasks. In the first fee application period, the Receiver
8 charged his maximum allowable rate of \$375 per hour for 127 hours out of the 1,072 hours claimed
9 during the interim period, and reduced the operating costs of the receivership estate by \$24,000 per
10 month. See Receiver’s First Interim Fee Appl. 4-5, Docket Item No. 134. During the second
11 application period, the Receiver’s agents conducted the vast majority of the work required to
12 maintain the receivership estate, charging an average of \$173 per hour. See Receiver’s Second
13 Interim Fee Appl. 4, Docket Item No. 338. The Receiver further reduced the financial burden on
14 the receivership estate by absorbing travel expenses, not billing for time spent traveling, and
15 charging a reduced fee for communicating via telephone with investors. Id. 4-5.

16 During the third application period, the Receiver prepared and filed income tax returns,
17 reduced the operating costs of the receivership entities, and spent considerable time dealing with
18 Mr. Feathers’ motions. The net cash increase in that time period was \$4,159,566.56, which is
19 significantly higher than the net revenue of \$448,894.80 in the second application period. Dkt. No.
20 607 at 1; Dkt. No. 338 at 3. The Receiver’s fees dropped from \$92,929.50 in June to \$43,800 in
21 July. Dkt. No. 607 at 1. Furthermore, the average fees to operate the receivership entities and
22 administer the estate (excluding work related to Mr. Feathers and the forensic accounting) declined
23 as stabilization was attained. Id. at 6-7. The Receiver delegated work to agents billed at a lower
24 rate, resulting in a blended hourly rate of \$209 for the third application period. Id. at 8-9.

25 During the fourth application period, the Receiver managed loan portfolios and loan
26 servicing, making significant progress with several slow paying or impaired loans. Dkt. No. 646 at
27 2. The Receiver completed the sale of the Whiskey Junction asset with sales proceeds of
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1 \$243,835.50 and completed the sale of the Sweet Fingers asset with sales proceeds of \$244,669.
2 Id. at 2-3. The average cost of operating the receivership entities and administer the estate has
3 declined to \$55,800 per month for this application period (from approximately \$71,000 per month
4 over the life of the receivership). Id. at 7. In October, fees increased as a result asset sales, loan
5 payoff, improved collections and cost cutting, claims reconciliation, determination, and analysis
6 and development of a distribution plan. Id. The Receiver delegated work to agents billed at a
7 lower rate, resulting in a blended hourly rate of \$194 for the fourth application period. Id. at 8.
8 Further, the Receiver spent \$2,288.00 in work related to Defendant, including responding to
9 Defendant through the Receiver's attorney. Id. at 4, 10.

10 The Court partially grants the Receiver's request for fees incurred during the fourth fee
11 application period. The Court withholds 25% of the Receiver's request for fees and the Receiver
12 may apply for those fees at the conclusion of this litigation. Withholding fees until the conclusion
13 of the lawsuit assists the Court in achieving its continuing goal of preserving funds held in the
14 receivership estate for the compensation of the investors. This approach is common in SEC civil
15 enforcement actions because it allows the Court to withhold fees until it is absolutely clear that a
16 receiver's efforts will ultimately benefit the receivership estate. See SEC v. Byers, 590 F. Supp. 2d
17 at 648. The Court derives the authority to award such reduced fees from its power to "fix the
18 compensation" of receivers and their attorneys. Drilling, 69 F.2d at 418.

19 **2. Allen Matkins**

20 Allen Matkins provided valuable services to the Receiver during the fourth application
21 period. See Dkt. No. 647 at 2-6. During the fourth application period, Allen Matkins assisted the
22 Receiver in answering and reviewing numerous motions filed by Mr. Feathers and the SEC,
23 reviewed the Court's order granting the SEC's motion for summary judgment, helped answer
24 communications from loan borrowers, advised regarding legal issues and strategy pertaining to
25 default and collection issues on loans, advised regarding a dispute concerning a consulting
26 contract, helped answer communications and inquiries from investors, advised regarding the
27 potential sale of receivership entities, analyzed claims, drafted the proposed distribution plan of
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1 receivership estate assets, prepared the third interim fee application, and prepared pleadings in the
2 case filed by California Business Bank. Id. Allen Matkins requests to be compensated for 90.6%
3 of its total fee amount of \$99,292.05 (equaling \$89,981) at a blended hourly rate of \$395.

4 The Court grants 90% of Allen Matkins' request for fees and 100% of its request for
5 expenses for the fourth interim period. The Court has determined that the award is appropriate
6 under the circumstances for several reasons.

7 First, as discussed above, the Court has a strong interest in preserving the funds of the
8 receivership estate for the benefit of the investors. Allen Matkins has chosen to assist the Receiver
9 in this case where, if the SEC's allegations are proven, investors stand to suffer great losses on
10 their investments. See Order Approving Receiver's Appl. to Employ Allen Matkins as General
11 Counsel, Docket Item No. 36; Receiver's Appl. to Employ Allen Matkins as General Counsel,
12 Docket Item No. 31. As a result, Allen Matkins is obligated to charge a lower blended hourly rate
13 than its customary fee. The Court is not alone in its view that SEC enforcement litigation requires
14 the counsel to a receiver to charge an hourly rate substantially lower than its customary rates. For
15 example, in Byers, the law firm assisting the Receiver requested a similar blended hourly rate to
16 that requested by Allen Matkins in this instance, and the court deemed the rate "too high for a
17 securities receivership case." See Byers, 590 F. Supp. 2d at 646-48. The Byers court stressed that
18 the discretion of the court should be utilized to reflect the public interest in maintaining the vitality
19 of the receivership estate. See id. at 644-46. The Byers court noted that in such situations, the
20 receiver's counsel should be modestly compensated because investors "are likely to recover only a
21 fraction of their losses." Id. at 645. Furthermore, a law firm should voluntarily charge a
22 discounted rate for all of its services, regardless of the status of the attorney providing the services.
23 See id. at 647 (noting that the law firm's application for fees should discount the hourly rate for all
24 billing professionals, including summer associates, paralegals, and litigation support clerks).

25 Second, the Court emphasizes that in the application for Allen Matkins to represent the
26 Receiver, Allen Matkins had "agreed that its blended hourly rate for the receivership will be \$395
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1 or less.” Dkt. No. 31 at 7. Allen Matkins’ fourth fee application requests a blended hourly rate of
2 \$395.00, which is the maximum limit set in the application.

3 Third, the Court reserves its discretionary power and may consider many factors when
4 awarding a reduced fee, regardless of the fees being approved by other courts in similar cases.
5 This discretionary power was made apparent in In re Alpha Telcom, Inc. when the court awarded a
6 reduced fee, partially because the Receiver’s performance failed to adequately recover assets for
7 the receivership estate. See Alpha Telcom II, 2006 WL 3085616, at *3-6. The Alpha Telcom
8 court explained that no statute or precedent required it to give deference to the opinion of the actual
9 law firm or receiver requesting the fee, or the opinion of third parties who support the requested
10 fees. See id. at *3 (“No statute compels such a conclusion, however, nor do I believe such great
11 deference is warranted in this instance.”). The Alpha Telcom court chose to focus mainly on the
12 success of the receiver’s efforts, the financial burden that the receivership estate could bear, and
13 “other factors,” believing that those factors were most relevant to the appropriation of fees to the
14 receiver and counsel. Id. at *6. This case highlights that the Court is not bound to any one of the
15 established factors when considering fee requests. Although the Alpha Telcom court could have
16 simply awarded fees based on the reasonable rates charged by other receivers in similar cases, it
17 chose to focus on the efforts of the receiver to recover assets for the receivership estate instead.
18 See id. at *3-6.

19 Similarly, rather than fashioning an award after analyzing and compiling a record of the
20 rates approved by other courts in similar cases, the Court chooses to primarily focus on the fact that
21 Allen Matkins’ requested fee rate is the upper limit approved by the Court.

22 The Court notes that the fee awarded to Allen Matkins here is not unusual in this type of
23 case, and Allen Matkins has requested similar rates of compensation in the past. As an example,
24 Allen Matkins was appointed as general counsel to the receiver in SEC v. Medical Capital
25 Holdings, Inc., and requested that the court pay 80% of its incurred fees during an interim fee
26 period. See No. CV-8:09-0818 DOC (C.D. Cal. Jan. 4, 2013), Docket Item No. 951 at 1. This
27 request reflects a blended hourly rate of \$382.72. See id. at 1, 5-6. The Medical Capital court
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1 granted the request on February 20, 2013. Medical Capital, 09- CV-0818 DOC (C.D. Cal. Feb. 20,
2 2013), Docket Item No. 977, at 1-2.

3 Here, Allen Matkins requests approximately 90.6% of fees incurred, to reach a blended
4 hourly rate of \$395 for the fourth interim fee period. This is the maximum limit approved in the
5 Court's Order Approving the Receiver's Application to Employ Allen Matkins. As such, the
6 reduction in the fee award to Allen Matkins to approximately \$355.50 per hour is reasonable in
7 light of the circumstances of this case, the work performed by Allen Matkins, and other public
8 interest considerations.

9 **III. Conclusion and Order**

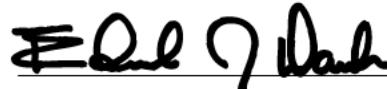
10 The applications for fees and expenses incurred by Allen Matkins and the Receiver are
11 granted in part for the period from August 1, 2013 through October 31, 2013. The requested
12 amounts are disbursed as follows:

13 **Fee Distribution**

14 Applicant	15 Fees Allowed	16 % of Request	17 Expenses Allowed	18 % of Request
19 Receiver	20 \$112,903.54	21 75%	22 N/A	23 N/A
24 Allen Matkins	25 \$80,982.90	26 90%	27 \$905.68	28 100%

19 **IT IS SO ORDERED.**

20 Dated: May 9, 2014

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22 EDWARD J. DAVILA
23 United States District Judge